Proliferating segments, touch points, and communication vehicles are causing marketers to launch a wide variety of brand, channel, and customer initiatives. However, ad hoc responses to proliferation often yield heightened complexity and disjointed resource allocation.

To avoid these ills, companies need a commercial operating system—a blueprint for consistent, coordinated processes, tools, pivotal roles, and performance management.

The integration of these elements is particularly challenging, and important. Companies frequently are disappointed when they apply standard tools without clarifying accountability for key decisions, redesign processes without linking them to measurable outcomes, or improve skills without improving processes.
The power of a commercial operating system

All too frequently, marketers’ responses to proliferation undermine consistency, coordination, insight, and decision making. New brand, channel, and segment groups focus on increasingly disparate parts of the market and are often poorly integrated with the rest of the sales and marketing organization. Also, they give rise to unintended consequences, such as channel conflict, rising marketing costs, convoluted IT systems and other kinds of process infrastructure, and an inability to allocate marketing dollars consistently to the most valuable opportunities.

To understand these dynamics, consider the experience of a global beverage company dealing with three aspects of proliferation: the growth of the premium and economy segments at the expense of middle-of-the-road ones (the company’s traditional focus), the increased importance of discount channels, and media proliferation. The company’s responses—new brands, a variety of different segmentation strategies, and an increased emphasis on selling to discount retailers—added several layers of complexity to its marketing efforts.

As a result, the company’s marketers had increasing difficulty identifying and pursuing opportunities in a coherent way, assigning accountability, and tracking performance. At the same time that brand managers in one region were investing in marketing communications to position a brand as
a premium one, for example, the sales organization was discounting that brand for value-oriented retailers. These uncoordinated efforts eventually diluted the brand.

The solution to these problems was for the beverage maker to create what we call a commercial operating system—a blueprint for consistent sales and marketing in the two or three functional areas (such as pricing, brand, segment, channel, or key-account management) that are most closely linked to a company’s strategic priorities. Most commercial operating systems have four well-integrated components (Exhibit 1):

- **consistent processes**, or sequences of activities along the business calendar, through which the relevant people interact to make high-quality marketing decisions
- **leading-edge tools and frameworks** to guide decision making
- **clear responsibilities, skill requirements, and talent development** for sales and marketing professionals in pivotal roles

**EXHIBIT 1**

A blueprint for consistency

Components of a commercial operating system

- **Framework and tools**
  - Leading-edge methodologies, templates, tools, and ways of thinking that shape commercial decisions

- **Processes and interactions**
  - Core marketing- and sales-management processes, including responsibilities, calendars, and interactions across organization

- **Talents and skills in pivotal roles**
  - Right people and/or new skills developed in crucial positions that drive performance

- **Metrics and performance management**
  - Set of standard metrics and explicit performance management across core processes
• consistent metrics and performance-management systems that reinforce the organization’s processes, methodologies, and talent management

Although these elements might seem like standard attributes of any well-functioning marketing and sales organization, they are in fact far from common, as well as challenging to put in place and integrate. As a result, many companies have been disappointed by disjointed efforts to apply standard tools without clarifying who will make what decisions using the information the tools provide. Other companies redesign processes without linking them to measurable outcomes that matter to customers or improve skills without improving processes to take advantage of the new capabilities.

In this chapter we offer practical advice to marketers searching for more consistency, greater coordination, better insight, and improved decision making. We begin by laying out design principles that companies should follow when installing a commercial operating system. Then, to bring these principles to life, we describe several cases of companies that have upgraded the way they do marketing.

Designing a commercial operating system

The inconsistent, poorly coordinated marketing execution brought on by proliferation has severe consequences. Quality and efficiency suffer when companies let myriad disconnected brand, segment, and channel initiatives bloom. What’s more, by increasing the number and role diversity of brand, segment, and channel managers, proliferation has complicated the interdependencies that have long existed within the marketing organization, making it not only less clear who is responsible for what but also virtually impossible to integrate different marketing and sales functions. And in recent years, as companies have been selling more products and brands to more segments in more channels and regions, while using more communications vehicles to advertise those products and brands, it has become more complex to measure and manage performance. To meet these challenges, companies must follow some important principles and avoid several pitfalls in the way they approach the integration of processes, tools, talent, and performance management.

Processes and interactions

Rather than upend the way everything is done, marketers should focus on the two or three key commercial processes that are central to superior business performance (Exhibit 2, on the next page). For a packaged-goods company,
these processes might be advertising and innovation; for a paper manufacturer, they might be pricing and key-account management. Deciding where to focus requires attention to changes in the marketplace that sometimes demand new corporate priorities. If customers become more concentrated, for example, a company may need to develop key-account capabilities.

After selecting the processes, companies should avoid focusing exclusively on mechanics, such as the development of templates and checklists for employees to fill in and follow. Instead, executives should promote a healthy tension among decision makers in different parts of the organization. An important way of promoting the tension and dialogue that yield better decisions is to schedule periodic reviews during which top executives can challenge subordinates and each other about the relationships between seemingly uncoordinated marketing actions.

### Frameworks and tools
Managing a portfolio of brands has long been more successful when all brand groups use a common approach to segmentation for their planning. Similarly, it’s easier to set the right price when sales and marketing professionals conduct standard analyses to compare how much revenue a
company keeps from each transaction. But proliferation has made consistency difficult to maintain, and advances in information technology have tempted many marketers to develop systems and tools so sophisticated that no one wants to use them.

To balance sophistication with consistency and user-friendliness, marketers should selectively determine which tools and frameworks to adopt or disseminate throughout the organization. Conceptual frameworks include sales funnels, which track the rate at which salespeople convert customers at each stage of the sales process, from prospecting and first meeting to proposal, sale, and contract. Tools might include information technology systems that automate and support the detailed analysis of the profitability of key accounts. Companies that select a small number of tools and frameworks capable of yielding a competitive advantage and then tailor them for widespread use are more likely to transform the increasingly complex information available into good decisions.

Talent and skills in pivotal roles
Frequently, a management role is inextricably linked with one or more of a company’s key commercial processes and with the related frameworks and tools. (An obvious example is brand management.) Companies hoping to operate in a consistent, coordinated way need to define these roles carefully, to fill them with people of the right caliber, and to build a pipeline of talent for the future.

When trying to upgrade the skills of the people occupying pivotal roles, companies often fall into either of two camps. In one are corporations vainly trying to fill their gaps by recruiting a guru or two, often from other industries, such as consumer products. In the other are those hoping, and frequently failing, to train their way to greatness. Many companies need a combination of hiring and nurturing internal talent. From the outside, these companies must find enough talent to achieve the critical mass required for modifying some of their current habits. At the same time, they need leading-edge human-resource and training processes that spot, create opportunities for, and groom internal talent. A leading indicator of success is the ability of marketing executives to move people easily between pivotal roles without missing a beat.

Metrics and performance management
Since what you measure is what you get, it’s impossible to put in place an effective operating system without overhauling performance management. To
permit useful comparisons of performance for different brands, accounts, and regions, companies need a relatively small number of metrics that are well aligned with business objectives, remain consistent within functions, and can be aggregated across the organization.

Some companies make the common mistake of overhauling their metrics without changing their overall performance-management process. A well-functioning commercial operating system involves frequent, challenging performance reviews during which executives not only assess results but also conduct joint problem-solving and longer-term-development discussions with members of their management teams. Senior executives should always be asking what marketing managers are doing to improve the operating system’s core processes and tools so that they remain state of the art.

**A beverage company’s operating system**

To understand how these elements work together in practice, let’s return to the beverage company described at the beginning of this chapter. Before the company installed its operating system, it suffered from a host of problems:

- Although the responsibilities of key managers were quite clear (“manage to the budget,” “establish and execute on the plan”), they were also fairly narrow. As the company launched more brands toward more and different channels, those narrow, siloed roles began working at cross-purposes.

- The company had six or seven different ways of segmenting customers. As brands proliferated, it became increasingly difficult to determine what customer needs were targeted by various brands, how strong the fit was between brands and target segments, and whether the targeted opportunities were the most attractive ones.

- The company had no systematic way to track the performance of customers, brands, or stock-keeping units (SKUs) across regions and key accounts, so it was difficult to understand the impact of no-frills or private-label brands sold in discount channels.

- Performance measurement was limited. Brand managers focused on measures such as spontaneous and aided awareness, which relate to brand equity and communications programs. Key-account managers primarily emphasized volume.
To address these issues, the company developed a new way of doing marketing and sales—one focused on the brand- and key-account-management processes. At the core of brand management was a new, globally consistent methodology for segmenting customers based on need states (which take into consideration what customers want and how they want it). As part of the new approach, the beverage company gave brand managers tools for understanding which brand attributes contribute most to loyalty in specific segments and for tracking profitability at the segment line.

On the key-account side, the beverage maker built a company-wide “toolbox,” which included five analytical methodologies to help key-account teams review account economics, assess customer needs, determine each customer’s next-best alternatives, calculate the share of wallet the company was capturing from different segments, and map the decision makers it should influence to deepen its penetration.

To make the new tools work, the company redefined roles in two ways. First, it made brand and key-account managers responsible for interacting frequently with the rest of the organization. Key-account managers, for example, began taking brand positioning into consideration when they set prices and designed promotions, and they worked with plant managers to develop packaging ideas that reduced costs for retail customers. The second, related change was broadening the accountability of brand and key-account managers. The company’s new, standard processes helped managers develop brand-, segment-, and customer-level profit-and-loss scorecards. With this information in hand, managers became “mini-CEOs” responsible for both strategic planning and execution in their businesses.

Performance management now reflects the marketing organization’s redefined roles. Brand managers augment their old focus on brand equity by emphasizing aggregate performance (measured by the brand’s gross margin contribution). Meanwhile, metrics for key-account managers have expanded from volume to profitability and to quality, time, and cost targets that matter to key accounts. By reducing variability and guesswork, the new metrics have dramatically increased the quality of strategic dialogue. Thus, when brand managers present their campaign strategies for the year, they are expected to describe the likely return on different marketing investments, as well as the impact on brand positioning.

With the new level of insight this system provides, corporate marketing can better understand macrotrends within its customer base, identify untapped opportunities, and focus investments on innovation and growth. What’s more, the focus on profitability at the brand and key-account levels
has made it possible to tie local performance to corporate earnings. Earnings have increased significantly, both because sales to retailers have climbed from 2 to 4 percent in most regions and because aggregate marketing spending declined (by roughly one-fourth) as the operating system eliminated inefficiencies.

In addition to improving financial results, the beverage company’s consistent processes, tools, roles, and ways of measuring performance changed the look and feel of marketing. Brand managers communicate with a common language and feel closer to customers because their needs are at the heart of the new approach to segmentation. Sales managers have goals that go beyond closing deals and don’t have to go back to the boss as frequently when the need arises for trade-offs. And across sales and marketing, former skeptics like the way the new approach reduces the number of iterations associated with typical tasks.

**Ensuring a sufficient focus on core processes and tools**

In our experience, fully defining the operating system’s central processes and related tools is often a real challenge because they must encompass both rigorous analysis and marketers’ creative ideas. The following examples illustrate how two companies defined core aspects of their operating systems and promoted cross-functional linkages—one by using an innovation process, the other by using a profitability tool.

**An upgraded innovation process**

A manufacturer of consumer durable goods sought to enhance the role of its marketing and sales organization in product innovation as a way to deal with the polarization of its traditional stronghold in the middle-market segments. The company needed to generate more ideas for new products and to ensure that ideas surviving to the concept-development phase were well connected with insights about the wants and needs of consumers. But the innovation process worked in a serial manner: designs for products were nearly finalized before commercialization teams became involved with them. This serial approach inhibited the generation of ideas, hampered the company’s ability to fit new products with existing brand strategies, and reduced the effectiveness of product launches. As a result, the company often introduced new products two to three years after nimbler competitors did.

This company responded by redesigning its product-development process and creating a set of tools—including idea generation workshops, in-home
observation, and conjoint analysis to highlight key trade-offs—for project leaders to use at each step. It also improved linkages among salespeople (who frequently uncovered important insights about customer needs), pricing and brand managers (whose margin and positioning objectives helped focus research efforts), and members of the R&D group. The company reinforced cross-functional collaboration by establishing checkpoint meetings at each stage of the innovation process (Exhibit 3). The resulting dialogue led to better decisions about whether and how to proceed with new products.

The innovation process itself wasn’t groundbreaking. What was significant was the company’s use of some relatively straightforward process changes to improve the way different parts of the organization worked together and to ensure that innovation activities fit well with important business objectives. In doing so, the company took a major step toward defining its commercial operating system.

**EXHIBIT 3**

**Avoiding the serial approach**

Overview of cross-functional checkpoints along the product-management flow

<table>
<thead>
<tr>
<th>Strategic market plan</th>
<th>Consumer opportunity</th>
<th>Primary product</th>
<th>Product development</th>
<th>Commercial launch preparation</th>
<th>Commercial launch execution</th>
<th>Range management</th>
<th>Phase out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint R&amp;D and marketing team initiates consumer opportunity analysis</td>
<td>Joint R&amp;D and marketing team review of consumer opportunity analysis</td>
<td></td>
<td>Frequency interactions with marketing and sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Process initiation checkpoints
- Intermediate checkpoints
- Process completion checkpoints
An account profitability tool
In other instances, analytic tools play an integrating role. A chemical manufacturer sought to upgrade its key-account management because its mid-tier corporate customer segment was becoming polarized: some customers valued solutions and high-touch interactions, while others wanted the lowest possible costs.

The company’s improvement efforts featured a new Web-based tool that enables frontline salespeople to understand the relative profitability of each account. The tool generates detailed scatter plots that index sales versus profits by account and customer (Exhibit 4). That information not only helped salespeople to prioritize accounts but also clarified which level of service to offer each account.
This tool’s importance extended beyond key-account tactics. For starters, by identifying differences in the attractiveness of accounts, the analysis suggested opportunities to improve pricing, thereby enhancing the coordination between pricing and key-account management and bringing greater consistency to both. Furthermore, the tool highlighted the need to develop the skills of certain professionals; salespeople might, for instance, need to negotiate alternative contracts or to define a series of milestones for customers with a limited ability to pay list prices in the short term but great potential for future growth and profitability. Finally, the tool became a key ingredient in performance management.

High-quality processes; leading-edge frameworks and tools; clear responsibilities, skills, and decision-making authority for talent in pivotal roles; and effective performance management represent powerful sources of advantage in a world of proliferation. The consistency, coordination, and insight at the heart of a commercial operating system support excellence in marketing and sales activities ranging from brand and key-account management to the execution and management of pricing, customer segments, and marketing investments.

The authors wish to thank to Joel Claret, Brett Grehan, Thomas Tochtermann, and Catherine Wright for their contributions to this chapter.

Trond Riiber Knudsen (trond_riiber_knudsen@mckinsey.com), Cédric Moret (cedric_moret@mckinsey.com), and Evan Van Metre (evan_van_metre@mckinsey.com) are members of McKinsey’s global marketing and sales practice. Trond Riiber Knudsen is a director in the Oslo office, Cédric Moret is an associate principal in the Geneva office, and Evan Van Metre is a principal in the Atlanta office.